Philip Morris International Inc.
2025 First-Quarter Conference Call
April 23, 2025

JAMES BUSHNELL

(SLIDE 1.)

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2025 first-quarter results. The press release is available on our website at www.pmi.com.

(SLIDE 2.)

A glossary of terms, including the definition for smoke-free products as well as adjustments, other calculations and reconciliations to the most directly comparable U.S. GAAP measures for non-GAAP financial measures cited in this presentation are available in Exhibit 99.2 to the company's Form 8-K dated April 23, 2025, and on our Investor Relations website.

(SLIDE 3.)

Today's remarks contain forward-looking statements and projections of future results. I direct your attention to the Forward-Looking and Cautionary Statements disclosure in today's presentation and press release for a review of the various factors that could cause actual results to differ materially from projections or forward-looking statements.

I'm joined today by Emmanuel Babeau, Chief Financial Officer.

Over to you, Emmanuel.

EMMANUEL BABEAU

(SLIDE 4.)

Thank you, James, and welcome everyone.

In Q1, we delivered a very strong start to the year, with all key elements of the business contributing strongly to deliver double-digit increases in organic net revenue, operating income, and adjusted diluted EPS in both constant currency and dollar terms.

Our smoke-free business performed exceptionally well across all areas, with shipment volumes up +14.4% year-on-year, organic net revenue growth of +20%, and outstanding organic gross profit growth of +33% as all 3 smoke-free categories expanded gross margins. This was especially fueled by the rapid growth of *ZYN* and the continued volume momentum, operating leverage and scale benefits of *IQOS*. Our smoke-free business now accounts for 44% of total gross profit, as we continue to deploy our multicategory strategy across markets and broaden our growth opportunities.

IQOS delivered close to +10% HTU adjusted IMS growth with continued strong performance both in Japan and Europe, despite the annualization impact of the EU characterizing flavor ban. We expect double-digit growth for the rest of the year.

ZYN once again delivered strong growth in the U.S., with shipments increasing by an impressive +53% to reach 202 million cans, exceeding our initial expectations, as demand remained strong and production capacity increased ahead of schedule in the latter part of March, enabling some initial replenishment of trade inventories. International nicotine pouch can volumes also grew by +53%, or by +182% excluding the Nordics, demonstrating the global dynamism of this emerging category.

In e-vapor, *VEEV* Q1 performance was impressive, demonstrating its increasing contribution within our multicategory offering. Shipments more than doubled year-on-year and gross margins further expanded, driven by strong pod growth in Europe as we increased our distribution and commercial activities.

Within combustibles, overall volume growth coupled with strong pricing and ongoing cost initiatives drove a robust performance, despite notably negative geographic mix from increased volumes in lower-margin markets.

Overall, the very strong and increasingly profitable underlying growth of our smoke-free business was coupled with very solid combustible results and the added benefit of favorable shipment timing. This allowed us to deliver +16% organic OI growth and

+250 basis points of expansion in adjusted OI margins to reach 40.7%, and resulted in strong double-digit adjusted diluted EPS growth in both currency-neutral and dollar terms, despite currency headwinds.

While it is early in the year and there are a number of uncertainties in the global economic outlook, we remain confident that we will achieve another year of superior growth. As such, we now forecast double-digit adjusted diluted EPS growth, at prevailing exchange rates.

(SLIDE 5.)

Turning to the headline numbers, we delivered volume growth of +3.9%, reflecting the very strong dynamism of our smoke-free business. Combined with strong pricing and despite unfavorable combustible mix, we delivered double-digit organic net revenue growth of +10.2%, reaching $9.3 billion in total.

There was also a technical impact from the change in commercial model for the Indonesia below-tier one cigarette segment, where we now act as a handling agent. This results in lower net revenues and COGS but has no meaningful impact on gross profit or OI. Excluding this effect, which will notably affect the first 3 quarters of the year, organic net revenues grew by around +12%.

And as I mentioned, our smoke-free business was the primary driver behind our organic adjusted OI growth of +16.0%, or +12.8% in dollar terms.

Q1 adjusted diluted EPS grew by +17.3% in constant currency, and by +12.7% in dollar terms to $1.69. This includes a 7 cent unfavorable currency variance, notably due to non-recurring transactional losses in the quarter linked to currency volatility.

This stronger than expected performance was primarily driven by the top-line and gross margin results of our smoke-free business. Excellent *ZYN* performance was further enhanced by the great work of our manufacturing team in accelerating capacity initiatives. Strong *IQOS* HTU shipment growth includes a robust performance in Europe and around 1 billion units in favorable shipment timing, which we expect to reverse in H2. This was complemented by the resilience of our combustible business.

(SLIDE 6.)

Looking at category performance in more detail, our smoke-free business grew net revenues by +20.4%, and gross profit by +33.1%. This led to an impressive +670 basis points of organic gross margin expansion to surpass 70%, more than 5 points above the gross margin of combustibles at the current category and geographic mix of SFPs.

As I mentioned, this reflects an acceleration in gross margin expansion for all 3 smoke-free categories, notably combined with the positive mix impact of *ZYN's* accretive unit economics, and pricing on both HTUs and *ZYN*. Very strong *IQOS* gross margin expansion reflects the powerful growth and scale effects of this large and growing business, manufacturing productivities and a comparison benefit from higher device shipments in the prior year, when *ILUMA i* was launched in Japan.

On an organic basis, combustible net revenues and gross profit grew by +3.8% and +5.3% respectively. While pricing was strong and volumes were positive, there was a notably negative geographic mix this quarter due to growth in markets such as Turkey and Egypt, in addition to the technical impact from Indonesia. We expect both pricing and negative geographic mix to moderate over the rest of the year and target combustible gross margin expansion organically and in dollar terms. As expected, input cost headwinds eased compared to recent years, and based on current assumptions we expect this to further improve in 2026.

(SLIDE 7.)

Taking a closer look at our volumes, shipment growth of +3.9% was primarily driven by our smoke-free business, with all categories contributing positively, and placing us on track for a fifth consecutive year of total volume growth.

Smoke-free volumes grew by +14.4%, above our full-year target range of +12% to +14%, reflecting very positive contributions from *IQOS*, *ZYN* and *VEEV*. In addition to the growth of these 3 brands, which I covered earlier, I would also note that our oral smoke-free business includes U.S. moist snuff and Scandinavian snus, which declined modestly in the quarter. Despite this, Oral SFP shipment growth accelerated versus the prior quarter to +27%.

Cigarette volumes were positive for the fourth consecutive quarter, as we grew share in a modestly declining industry, with continued growth in markets where smoke-free products are not permitted, such as Turkey and India.

(SLIDE 8.)

You have heard us talk recently about our multicategory strategy for smoke-free products, as we leverage on the strength of the *IQOS* brand and commercial infrastructure in international markets to accelerate incremental growth from *ZYN* and *VEEV*. This is evidenced by our strong SFP results in Q1, with visible accretion across regions and markets.

We have 46 markets with multiple smoke-free offerings, including 16 with all 3 PMI categories on offer. The execution of this 3-pronged strategy is generating positive results in markets such as the Czech Republic, Romania, Switzerland and our Global Travel Retail business, in addition to promising starts in the UK and Italy. It is also helping to bolster our position as the global smoke-free champion.

(SLIDE 9.)

Double-digit Q1 organic net revenue growth was again driven by all 3 key elements of our structural growth model – namely volumes, pricing and smoke-free mix. Pricing contributed +6.0 points, reflecting over +8% combustible pricing, and around +3% for smoke-free excluding devices. The positive mix impact of the shift to smoke-free products, including U.S. smoke-free mix, drove a further positive contribution of +3.1 points.

Overall, combustible geographic mix & other factors had an unfavorable impact of 2.7 points. This was more negative than in prior quarters, reflecting the technical Indonesia impact and combustible market mix dynamics I explained earlier.

Currency had a negative impact of 3.9 points, with a further 0.5 points from acquisitions and divestitures, which includes the divestment of Vectura.

(SLIDE 10.)

Turning now to gross margins, we delivered very strong expansion of +340 basis points on an organic basis, and +360 basis points including currency, acquisitions and divestitures. This comprised +180 basis points from pricing, more than offsetting an 80 basis point unfavorable impact from cost inflation net of productivities and other cost items. Smoke-free growth delivered an excellent +230 basis points, with a flat contribution from combustibles excluding pricing but including the Indonesia impact.

This excellent gross margin performance supported strong adjusted OI margin expansion of +250 basis points, or +200 basis points organically after accounting for the currency mix of our costs, the divestiture of Vectura and other scope effects.

This impressive margin expansion was delivered despite a 140 basis point impact of higher SG&A costs driven by continued investment in our smoke-free growth, including U.S. investments, a low cost comparison in the prior year and the impact of 2025 investment phasing. As we continue to invest in top-line growth, we target organic SG&A growth broadly in line with net revenue growth for the year.

We continue to drive manufacturing and back-office efficiencies, and delivered over $180 million in gross cost savings in Q1 across both COGS and SG&A. After more than $750m of savings in 2024, this places us nicely on track to achieve our $2 billion target over 2024-26.

(SLIDE 11.)

Focusing now on our *IQOS* business. As expected, calendar effects and EU flavor ban annualization impacted Q1 adjusted IMS, however the delivery of +9.4% growth despite these factors marks continued strong underlying momentum.

We expect double-digit progress in the balance of the year, in line with our target of +10 to +12% growth. Supporting this are commercial initiatives around brand-building and continuous innovation on devices and consumables, as we progressively roll out *ILUMA i* and new consumable variants of *TEREA*, *LEVIA* and *DELIA*. Over the longer term, we have a rich *IQOS* innovation pipeline to further enhance the breadth and quality of the user experience with this iconic brand. As disclosed in our latest Integrated Report, over 99% of our 2024 adjusted R&D spend was on smoke-free products, consistent with the last 4 years, as we continue to drive consumer-centered product development.

(SLIDE 12.)

Turning to Europe, where we are building on the strength of our *IQOS* business to create an integrated multicategory portfolio to accelerate consumer switching and value creation. Total shipments of our flagship smoke-free brands advanced by +17.5% in Q1, with an increasing contribution from both *ZYN* and *VEEV*. *IQOS* HTU shipments grew more than 15%, including a positive comparison impact from the prior year.

Our investment in brand-building initiatives are exemplified by the recent partnership with renowned Italian designer Seletti at Milan Design week, as part of the *IQOS Curious X* campaign.

For *IQOS*, Q1 HTU adjusted IMS grew by +7.4%, as we further accelerated our share of cigarettes and HTUs to a record 11.4%. Many markets in the region grew adjusted IMS by double-digits, including high-teens growth or more in Spain, Germany, Bulgaria and Greece. This dynamism more than compensated for flavor ban annualization which, as flagged last quarter, was especially pronounced in Q1 and most notably in Italy. I am particularly pleased to report that sequential market share in Italy is trending well, with a record high of 18.4% for Q1 and progressive increases through the quarter.

Overall, regional Q1 adjusted IMS growth was in line with our expectations, and we expect another robust quarter in Q2 followed by an acceleration in the second half.

Our experience of the flavor ban impact remains unchanged, with a broadly consistent pattern of recovery across markets following implementation. We continue to expect an impact of around 1 billion units in 2025, primarily due to annualization with only Hungary and Slovakia implementing the ban so far this year. The most notable remaining market is Poland where the clean-shelf date will be in early-2026.

We also continue to roll out new and improved variants of our tobacco-free consumable *LEVIA*, which is driving promising results. This is well-illustrated by Hungary, where *LEVIA* reached a double-digit share of PMI HTUs less than 3 months from launch.

(SLIDE 13.)

Our fundamental progress in the region is highlighted by the consistent growth in key city offtake shares. This also includes Hungary where Budapest share reached almost 42%, over 4 points higher than Tokyo. Impressively, 24 of the 34 markets where *IQOS* is present in Europe have crossed the 10% key city share mark, with 6 above 30%. Notable call-outs across the Region include London, Vienna, Zurich, Lisbon and Athens.

The regulatory landscape is an important determinant of smoke-free progress, and we are encouraged by recent positive developments in a number of markets which recognize the role of Tobacco Harm Reduction in policy measures. This includes Greece which introduced dedicated legislation supporting science-based claims on smoke-free products, and Hungary where factual and science-based communications to consumers on smoke-free products is allowed, versus a total advertising ban for combustibles. In Ukraine, an excise tax differential on HTUs versus cigarettes was re-introduced following a period of equal treatment.

(SLIDE 14.)

In Japan, we delivered HTU adjusted IMS growth of +9.3%, effectively marking the 10th quarter of double-digit growth after accounting for the leap year. HTU adjusted share increased by 3 percentage points year-on-year and +1.6 points sequentially to reach 32.2%, further highlighting the dynamism of the innovative *IQOS* brand and product portfolio in this key market. *IQOS* HTUs captured more than three-quarters of category growth in Q1, and combined with our cigarette business, PMI is now the market leader by volumes, of which approximately 75% are HTUs.

The overall smoke-free category continues to progress, reaching almost 48% on a national offtake basis in March, with 13 cities and 8 prefectures now crossing the 50% threshold.

(SLIDE 15.)

Globally, we continue to see very strong *IQOS* performance as illustrated by key city offtake shares. Highlights include impressive year-on-year growth in the capitals of Indonesia and Mexico to surpass 5% share, robust progress in the Middle East & North Africa, and strong growth in Belgrade to 17.7% share despite increased competitive activity. *IQOS* reached a new high in South Korea, with a 14.1% share in Seoul supported by the launch of *ILUMA i* in a highly competitive market.

Offtake share performance in Cairo continues to be optically impacted by the growth of the combustible market, where competitor supply has normalized.

Also worth highlighting is the excellent growth of our Global Travel Retail business, which is a leading space for our multicategory offering. We recorded strong HTU growth across all regions to reach share of over 18% in airports where *IQOS* is present.

In the U.S., as planned, we commenced direct sales of *IQOS 3* devices and HTUs in Austin, Texas at the end of March, following targeted engagement with legal-age nicotine consumers over recent months. While intentionally small-scale, we have received strong interest with further *IQOS 3* pilots planned in the coming months as we prepare for the at-scale launch of *IQOS ILUMA*. As a reminder, we are not assuming any significant HTU volumes from the U.S. in our full-year forecast.

(SLIDE 16.)

Switching to *ZYN*, which continues to resonate strongly with adult nicotine users as a superior product with premium brand equity, and deliver excellent results.

Continued strong demand and increased production capacity enabled shipment volume growth of +53% to reach over 200 million cans for the quarter. This +70 million year-on-year increase is impressive, though we should note the prior year first quarter featured notable depletion of retailer and distributor stock levels and therefore a sell-out volume higher than shipments, and this quarter included the beginning of a replenishment.

As we continue to expand production at our Owensboro plant, we accelerated one planned step in this process to the latter part of March. This enabled increased shipments at quarter-end, and a pull-forward of initial distributor restocking. With very limited flow-through of these additional shipments to retail in the quarter, this did not yet have a meaningful impact on in-store availability. We target full normalization of the supply situation in Q3 this year.

ZYN continues to perform very robustly at retail given the circumstances, with strong double-digit offtake growth. According to Nielsen, Q1 offtake volumes grew by around +15% year-on-year, with category value share remaining strong at over 70% despite heavy competitor discounting. While Nielsen data is based on only a small sample of stores, it also shows our offtake volume share has been held back by availability and declined by 1.5 points sequentially to 61.5%. We already observe our share on MSA data, which measures shipments from distributors to retail, recover to almost 66% in March on the limited flow-through I just mentioned.

With category offtake growing at around +30 to 35% while the leading brand is supply-constrained, we expect *ZYN* offtake to gradually accelerate in the coming months as in-store availability improves and we reactivate commercial and marketing initiatives.

We remain excited about the growth prospects of this dynamic category, and its potential to switch legal-age consumers from cigarettes and other traditional forms of tobacco. *ZYN* remains the only nicotine pouch product authorized by the FDA, and this includes all variants in both 3mg and 6mg strengths currently commercialized in the U.S. As outlined at CAGNY, there is a large addressable market in the millions of legal-age nicotine users in the U.S. and we plan to engage more actively beyond our existing consumer base to other legal-age nicotine users.

Indeed, with strong latent demand and capacity expansion ahead of target, we now raise our shipment forecast to 800 to 840 million cans for the year.

With the outstanding efforts of our team on the ground, we continue to work on increasing capacity in our Kentucky facility. Construction of our second U.S. manufacturing site in Colorado is well underway, with production due to commence in early 2026. We remain, as we have been since entering the U.S., committed to investing in U.S. manufacturing. The substantial investments we have made in the U.S are expected to continue to result in significant job creation and economic contribution to the country.

(SLIDE 17.)

Outside the U.S. we continue to roll-out *ZYN*, leveraging our presence with *IQOS* and *VEEV* to drive awareness and trial with legal-age nicotine users. The total international nicotine pouch category is nascent in almost all geographies and stands at around half the size of the U.S. in volume terms. We are now in 38 markets globally following Q1 launches in the UAE and Colombia, and ultimately see all addressable markets as meaningful opportunities given the unique characteristics of the category.

Within the +53% growth of our international pouch can volumes, shipments almost trebled outside of the Nordics, including promising momentum in European markets such as Austria, Switzerland and the UK where we commenced a national key account roll-out. In emerging markets, strong progress continues in Pakistan, Mexico and South Africa. PMI Global Travel Retail is a notable standout, as it also increases global visibility and awareness of *ZYN* within our multicategory offering.

(SLIDE 18.)

Finally, closing our smoke-free performance with e-vapor. *VEEV* plays an increasingly important role within our multicategory universe, with growing volumes and gross margins. Shipment volumes doubled year-on-year to 0.6 billion on an equivalent unit basis, driven by very good performance in Europe, where the pod segment continued to grow strongly, partially at the expense of disposables given increased bans and restrictions for this format. We observe increasing *VEEV ONE* adoption rates and low abandonment across key markets, which is testament to the quality and presentation of this premium product to legal-age consumers.

(SLIDE 19.)

Turning to combustibles. Our business performed robustly in Q1 with organic net revenue growth of +3.8%, or closer to +7% excluding the Indonesia technical impact. This was driven by strong pricing of +8.3%, with notable contributions from Turkey, Poland and Germany. With less favorable timing dynamics in H2, we continue to expect full year combustible pricing of +5 to +6%.

The cigarette industry declined by 1.3% in Q1, due to growth in geographies where SFPs are nascent or not present, more than offset by accelerated cigarette declines elsewhere. Where SFPs are not permitted, such as in Turkey or India, we expect this divergence to continue, supported in some cases by demographic trends. Nonetheless, we continue to expect a low-single digit cigarette industry decline for the year.

Category share was strong, growing 0.4 points in Q1, partly due to positive market mix. Both *Marlboro* and our global brands portfolio reached all-time first quarter highs. We continue to target broadly stable category share over time, with our main priorities being maximizing value and supporting the growth of smoke-free products.

Most importantly, combustible organic gross profit continued to grow robustly at +5.3% following the recovery of 2024.

(SLIDE 20.)

This brings me to our outlook for 2025.

We delivered a very strong Q1, including better-than-expected margins, and we remain confident we will achieve another year of superior growth. As such, we are reconfirming the currency-neutral growth outlook we provided in February, despite a backdrop of increased uncertainty in the global macro-economic environment. As a global company with broadly diversified production and a worldwide supplier network, including an established U.S. manufacturing base, we believe we are well-positioned to mitigate potential supply chain challenges. While the situation is volatile, we do not currently anticipate a material impact on our business from recently introduced or discussed tariffs.

We expect a continuation of strong momentum from our smoke-free business, including the benefits of further multicategory deployment. As I explained we are raising our forecast for U.S. *ZYN* shipments to 800 to 840 million cans. This further supports our forecast of +12-14% SFP shipment growth which incorporates unchanged strong growth assumptions for *IQOS*.

We also continue to expect total PMI organic net revenue growth in the range of +6% to +8%, organic OI growth of +10.5% to +12.5% and currency-neutral adjusted diluted EPS growth of +10.5% to +12.5%.

As announced in this morning's press release, we are raising our 2025 adjusted diluted EPS forecast to $7.36 to $7.49. This now reflects +12% to +14% growth in dollar terms and includes a favorable estimated currency impact of 10 cents at prevailing exchange rates. This reflects recent strength in the Euro, Japanese Yen and Russian Ruble, partly offset by a stronger Swiss Franc.

For Q2, we assume HTU shipment volumes of 37.5 to 38.5 billion, with another strong quarter of HTU adjusted IMS growth of around +10%. For U.S. *ZYN* we expect shipments to be at a similar level to Q1, as trade restocking continues and offtake gradually accelerates. We forecast adjusted diluted EPS of $1.80 to $1.85, including a favorable currency variance of 6 cents, at prevailing rates. We expect a strong H1 overall, with organic net revenue growth around the high end of our target range for the full year, and organic OI growth slightly above.

With regard to our balance sheet, deleveraging remains a key priority, and we continue to target further reduction in 2025, placing us on track for our target ratio of around 2.0x by the end of 2026.

(SLIDE 21.)

We believe our growth profile is best-in-class within large-cap Consumer Goods, as shown by our 3 year CAGR targets which we are well on track to meet or exceed.

Adjusted diluted EPS growth in dollar terms is a key priority and, as demonstrated in 2024, we are committed to taking pro-active steps to manage potential currency volatility, including through our hedging activities.

(SLIDE 22.)

Behind the delivery of our growth lie the enormous efforts we have made to transform our business over the last 10 years, and the continued drive towards our ambition to become substantially smoke-free.

This quarter coincides with the publication of the 6th edition of our annual Integrated Report, which provides a comprehensive view of our company's performance across both financial and non-financial dimensions. Highlights include the important efforts and actions we are taking with regards to youth access prevention, as well as the progress we have made on our operational efficiency, strengthening our resilience, driving innovation, and ultimately future-proofing our business.

As explained in the report, our approach to sustainability is fundamentally business-driven, with the objective of both sustaining and enhancing the growth of our smoke-free transformation to drive continued value creation. I would encourage anyone with an interest in how and why we are transforming to read it.

(SLIDE 23.)

I will now conclude today's presentation with some key messages.

Following an excellent start to the year, we are on track for another year of strong performance in 2025. While no company is immune to macro-economic volatility, we believe we are well positioned to navigate external dynamics.

We have three powerful growth drivers, with pricing power and positive smoke-free category mix on top of volume growth, where we target our fifth consecutive year of expansion led by *IQOS*, *ZYN* & *VEEV*. As we continue to invest strongly behind our smoke-free brands, these drivers are also profit-accretive, and combined with our proactive measures on pricing and cost we have great confidence in sustainable adjusted diluted EPS growth in both currency-neutral and dollar terms.

Finally, we remain a highly cash-generative business with an unwavering commitment to our progressive dividend policy. We look forward to further rewarding our shareholders as our transformation delivers sustainable growth.

(SLIDE 24.)

Thank you. We are now happy to answer your questions.

JAMES BUSHNELL

(SLIDE 25.)

That concludes our call today. Thank you for joining us. If you have any follow-up questions, please contact the Investor Relations team. Thank you again and have a nice day.